

MASSACHUSETTS GAS UNBUNDLING

CAPACITY DISPOSITION ISSUES

In response to the Massachusetts Department of Telecommunications and Energy's initial request for information pertaining to the Department's Order of April 3, 1998 D.T.E. 98-32, Duke Energy's Northeast Pipelines offers the following comments pertaining to the disposition of upstream capacity.

Access to the Interstate Pipeline Grid

State unbundling policy must preserve the access to the interstate pipeline grid which makes it possible to provide consumers with natural gas distribution service within the state. As a fundamental operational matter, reliability of service requires that the quality of market area access to interstate capacity be preserved, and as the market grows, increased. Thus, Massachusetts' new regulatory policy should incorporate methodologies that allow interstate pipeline capacity to be reallocated in such a manner as to preserve that quality of access and provide mechanisms for insuring that future pipeline capacity needs are met while maintaining or improving service quality.

Reliability

Pipeline transportation service is not a single, undifferentiated product. Reliability is a key factor. In order to fill a multiplicity of customer requirements, LDCs have assembled complex portfolios of service contracts for both transportation and storage of natural gas. These portfolios balance cost-savings with reliability and efficiency and reflect the results of negotiations with natural gas pipelines for service and storage service agreements tailored to fit each LDC's geographic location, mix of customers, and climate considerations. The resulting portfolios represent years of supply planning and experience that provides for delivery of natural gas at locations, volumetric rates, quantities and pressures which are adequate to meet reliability obligations to customers.

Prior to each LDC's reliability obligations being individually addressed / resolved on a prospective basis, as they ultimately must be, Massachusetts should require LDCs to retain the capacity in their current portfolios until the primary terms of the associated contracts expire.

With such a transitional regulatory procedure, reliability of service for consumers, taking into account differences in geographic location, mix of customers, and availability of facilities, will be preserved. During the restructuring process these factors must be respected if gas service in the area is to continue in an efficient and cost-effective manner. Without retaining continuity of the firm capacity network there is no assurance that gas service in the area will continue in an efficient and cost effective manner.

Local Distribution Company Control:

State unbundling policies must also be developed that emphasize the importance of LDCs maintaining safe and efficient operations. Essential to this result are state mandates requiring LDCs to retain control of their systems during the entire transitions period, including the right and obligation to issue system flow orders, such that their systems can be maintained and operated to safely handle extreme and emergency conditions.

Massachusetts' new regulatory policies should encourage LDCs to maintain adequate firm pipeline capacity until such time as the LDC role has clearly changed and other market participants have undertaken the responsibility to contract for firm pipeline capacity. Without such regulatory encouragement, there is no assurance that the aggregate pipeline capacity contracted for by all of the market participants will be adequate to meet contractual obligations.

Mandatory Capacity Release:

A state regulatory requirement for mandatory capacity release at full rate will avoid the blending of the natural gas transportation and commodity cost into one product, which if allowed to happen in an open market, would increase the risk of higher prices to certain classes of customers. A voluntary capacity assignment program that allows third parties to select specific paths at a reduced rate will foster blended-market-pricing that operates to the advantages of some customers, yet causes others to incur additional costs.

In addition, mandatory capacity release at full rate, with appropriate recall provisions, would allow retention of firm capacity at primary delivery points and avoid potential capacity-constraints at critical points during periods of system stress. Such a regulatory approach would allow the LDCs to continue to provide safe and reliable service to firm customers on their distribution system by utilizing pipeline assets in the way which they were designed to be used.